

ORIGINAL

NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION
Arizona Corporation Commission

COMMISSIONER'S DOCKETED

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IN THE MATTER OF THE APPLICATION
OF AJO IMPROVEMENT COMPANY
COMPANY – ELECTRIC DIVISION – FOR A
PARTIAL WAIVER OF THE RENEWABLE
ENERGY STANDARD TARIFF RULES – A.A.C.
R14-2-1803(E) AND (F).

) DOCKET NO. E-01025A-15-0316

APPLICATION

Ajo Improvement Company ("AIC" or the "Company") submits its Application in accordance with the Renewable Energy Standard Tariff Rules ("REST Rules") – A.A.C. R14-2-1801 through R14-2-1816 – so that it can meet the non-distributed portion of its Annual Renewable Energy Requirement by acquiring Renewable Energy Credits ("RECs") originating from Salt River Project ("SRP"). Specifically, AIC seeks a partial waiver from A.A.C. R14-2-1803(E) and (F) so that it acquire low-cost SRP RECs (through its sister utility – Morenci Water and Electric Company ("MWE")) without acquiring the associated energy (i.e., the "bundled RECs") and without needing to show that the energy (kWh) associated with the RECs are delivered to AIC's service territory. AIC seeks this waiver in order for it to meet its 2015 Annual Renewable Energy Requirement, and its requirement for up to five years (through 2019). AIC makes this request for good cause and in accordance with A.A.C. R14-2-1816.

I. Introduction.

As a small utility with about 1,100 customers, AIC has sought to comply with the REST Rules as much as possible. Doing so has not been easy given its customer profile and remote service territory. The Company's customer profile consists mostly of residential and small commercial customers within one square mile of service territory. Most of the residential customers are retirees. There are no large commercial customers within its service territory. AIC

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1 has received a waiver from meeting the annual Distributed Renewable Energy Requirement (even
2 so, AIC has three non-residential distributed generation installations in its service territory at the
3 Ajo Plaza owned by the International Sonoran Desert Alliance). So while AIC has made efforts to
4 meet as much of the REST Rules requirements as it can, the Commission has recognized that it is
5 a small electric utility with a limited ability to meet the requirements, when approving the
6 distributed-energy waiver.

7 AIC has had past success meeting its non-distributed Annual Renewable Energy
8 Requirement (excluding the mining load). From 2008 through 2014, AIC has procured the
9 following RECs bundled with the associated energy (often by resale from MWE, who first
10 acquires the RECs for both utilities) and has shown the delivery of that energy to its remote
11 service territory:

- 12 • 2008 – California Biomass Energy.
- 13 • 2009, 2012, 2013 – Landfill Gas Energy from Tucson, Arizona.
- 14 • 2014 – Wind Energy from Colorado.

15 AIC has acquired these bundled RECs through its sister utility, Morenci Water and Electric
16 Company (“MWE”).¹ Even so, finding available sellers of bundled RECs and consummating the
17 physical transactions to get the energy delivered to AIC’s service territory have always been
18 difficult. For the wind energy procured in 2014, transmission issues delayed delivery of the last
19 portions of the transaction until May 2015. Further the costs of wheeling the energy from
20 generation to AIC’s service territory have been significant – the renewable premium costing as
21 much as \$45 per megawatt-hour (MWh) in some circumstances. Because AIC is served by a
22 single 69 kV line from the Gila Bend substation, wheeling bundled RECs to its service territory is
23 particularly difficult.

24 AIC is in compliance through 2014, but both AIC and MWE will need a combined
25 1,275,529 kilowatt-hours (kWhs) worth of RECs to meet their respective 2015 Annual
26 Renewable Energy Requirements. To do so, AIC has explored several options, but there is
27 simply not a robust-enough renewables and RECs market in Arizona where AIC can acquire the

28 ¹ Morenci Water and Electric Company is seeking a similar waiver as AIC.

1 RECs with the energy *and* deliver that energy to its service territory. As a distribution-only
2 utility, transmission access remains elusive, and merchant Eligible Renewable Energy Resources
3 (generation with available RECs and energy) are not being built. For AIC, acquiring RECs
4 originating from SRP is the most cost-effective option for its ratepayers to acquire RECs derived
5 from energy generated by an Arizona electric service provider, given the present circumstances.

6
7 **II. AIC's opportunity to acquire RECs from SRP through MWE.**

8 AIC has learned that SRP has an interest in selling RECs out of their current inventory to
9 both AIC and MWE. SRP is not an "Affected Utility" subject to the Commission's REST Rules,
10 but it does have RECs derived from Eligible Renewable Energy Resources to offer - that AIC can
11 then acquire from MWE. In Arizona one REC is created for each kWh derived from an Eligible
12 Renewable Energy Resource.² SRP has agreed to sell MWE up to 20,000,000 RECs (AIC could
13 then acquire enough SRP RECs from MWE to meet its requirements) which would satisfy both
14 MWE's and AIC's requirements for approximately five years. The catch is that these are
15 unbundled RECs – meaning that the AIC would acquire the RECs, but *not* the associated energy
16 that the RECs are derived from. Still, AIC would like to acquire these RECs and use them toward
17 meeting its Annual Renewable Energy Requirement – even though it would not be purchasing the
18 energy (kWh) the RECs are derived from and would not be paying to deliver the energy to its
19 service territory. SRP has banked the available RECs, while the associated energy has been
20 delivered to SRP's service territory.

21
22 **III. The reason for the request and why good cause exists to approve the waiver.**

23 The REST Rules currently require that AIC – as an "Affected Utility" per the REST Rules
24 – explicitly describe how it receives the RECs *and* the energy the RECs are derived from. AIC
25 must also show that the energy from Eligible Renewable Energy Resources is delivered to its
26 service territory, including the transmission rights to deliver that energy:

27
28 ² A.A.C. R14-2-1803(A).

1 **R14-2-1803. Renewable Energy Credits**

2
3 ...

4 **E.** Any contract by an Affected Utility for purchase or sale of
5 energy or Renewable Energy Credits to meet the requirements
6 of this Rule shall explicitly describe the transfer of rights concerning
7 both energy and Renewable Energy Credits.

8 **F.** Except in the case of Distributed Renewable Energy
9 Resources, Affected Utilities must demonstrate the delivery of
10 energy from Eligible Renewable Energy Resources to their
11 retail consumers such as by providing proof that the necessary
12 transmission rights were reserved and utilized to deliver
13 energy from Eligible Renewable Energy Resources to the
14 Affected Utility's system, if transmission is required, or that
15 the appropriate control area operators scheduled the energy
16 from Eligible Renewable Energy Resources for delivery to the
17 Affected Utility's system.

18 In order for AIC to acquire SRP RECs and use them toward meeting its non-distributed
19 Annual Renewable Energy Requirement, it must receive a waiver of these provisions. AIC's
20 request is in accordance with A.A.C. R14-2-1816, and it believes good cause exists to justify such
21 waivers.

22 Allowing AIC to acquire these RECs as described above provides a cost-effective solution
23 for the Company to meet its requirement at this time. The cost to acquire RECs from SRP is
24 significantly lower than the premiums in the past to acquire bundled RECs from previous
25 suppliers (especially from out of state suppliers). Further, SRP is an in-state producer of eligible
26 renewable generation. In other words, the RECs are derived from renewable energy mostly (if
27 not entirely) produced in Arizona. Thus, AIC believes that the SRP RECs, derived predominantly
28 from in-state Eligible Renewable Energy Resources, provides benefits within Arizona, but at a
29 significantly lower cost for it and its customers.

30 Further, AIC is presented with an opportunity to not only meet its 2015 Annual
31 Renewable Energy Requirement – but to meet the same requirement for up to five years. In other
32 words, AIC has an opportunity to acquire eligible RECs from an in-state renewable energy

1 producer through 2019, at a reasonable and affordable cost, and that still meets the intent of the
2 REST Rules. So the Company is requesting that the waiver from A.A.C. R14-2-1803(E) and (F)
3 remains in effect through 2019. At that time, AIC can assess whether the renewables market is
4 robust enough for AIC to meet its requirement cost-effectively and efficiently absent this type of
5 waiver.

6
7 **IV. Other options are not available or not nearly as economical.**

8 Before deciding to pursue acquiring RECs from SRP, AIC (with MWE) explored other
9 options to meet its REST Rules requirements without a waiver. Neither Arizona Public Service
10 Company ("APS") nor Tucson Electric Power Company ("TEP") are selling bundled RECs.
11 Public Service Company of New Mexico is also not selling bundled RECs. Renewable developers
12 AIC contacted, such as a large wind-energy developer in the region, are either fully subscribed or
13 did not have projects go forward. The landfill gas project in Santa Cruz County that AIC hoped
14 would materialize did not – as the County opted to not pursue the project. Finally, obtaining wind
15 energy from Colorado is complicated (if not made impossible) by transmission constraints; even
16 so, the prospect of obtaining such energy is expensive and involves the minimum of three
17 transactions to wheel the energy to AIC's service territory. Other providers may have paper
18 RECs available, but not the associated energy, and do not provide the same opportunity to
19 procure as many RECs as affordably as SRP has offered; in any event, a waiver would still be
20 needed in those circumstances. Put simply, the option to acquire SRP RECs is the best option
21 from an availability and economical perspective for the foreseeable future. AIC will then continue
22 to pursue other options that fully comply with the REST Rules requirements.

23
24 **V. Conclusion.**

25 WHEREFORE, AIC requests that the Commission:

- 26 (1) approve its request for a partial waiver of A.A.C. R14-2-1803(E) and (F) so that it can
27 acquire Renewable Energy Credits from Salt River Project;
28 (2) approve its partial waiver request for 2015 and for up to five years (through 2019); and

1 (3) grant AIC additional relief as the Commission deems just and proper.

2
3 RESPECTFULLY SUBMITTED this 1st day of September, 2015.

4 AJO IMPROVEMENT COMPANY

5
6
7 By 

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12
13 *Original and thirteen copies of the foregoing*
filed this 1st day of September, 2015, with:

14 Docket Control
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17 Copy of the foregoing hand-delivered
this 1st day of September, 2015, to:

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